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OPERATIONAL BUDGET: REIMBURSEMENT FOR PROGRAMME SUPPORT ~~AND~~ ADMINISTRATIVE SERVICES

Cost measurement study on the UNDP successor arrangements for agency support costs

Report by the Director-General

Summary

Reports on the results of a cost measurement study of the main UNDP executing agencies undertaken by a consulting firm engaged by the United Nations Development Programme within the framework of the development of the successor arrangements for agency support costs. The findings show that UNIDO is one of the most cost-efficient agencies among the five studied.

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Introduction

1. Within the framework of the implementation of the United Nations Development Programme (UNDP) Governing Council decisions 90/26 and 91/32 on successor arrangements for agency support costs, a consulting firm was hired by UNDP to undertake a detailed study of the cost of supporting the technical cooperation activities carried out by the Food and Agriculture Organization (FAO), the International Labour Organisation (ILO), the United Nations Department of Technical Cooperation Development (UNDTCD), the United Nations Educational, Scientific and Cultural Organization (UNESCO) and UNIDO. The study was intended to focus on the services to be provided under the administrative and operational services (AOS) category of support services. From the very outset, the consultants were also requested to study the cost of a Professional work-month of services to be delivered under technical support at both the programme (TSS-1) and project (TSS-2) levels. The study was carried out during the first half of 1991 and the draft results were submitted to the UNDP Governing Council in June of the same year.

2. After discussions with the agencies and UNDP, supplementary work was carried out by the consultants and a report was finalized in November 1991. This report was based on 1990 figures that were subsequently updated to reflect the full 1990-1991 biennium costs and delivery figures. At the same time, the consultants used the delivery figures for the 1990-1991 biennium and costs budgeted for the 1992-1993 biennium to project the support cost rates for the current (1992-1993) biennium. It was pointed out that this projection was obviously very speculative as, in the ultimate analysis, actual delivery figures would be different (see explanation of methodology below). The support cost rates projected for 1992-1993 would only be correct were delivery for the five agencies in the current biennium to remain at the same level as in 1990-1991.

3. The present document presents cost rates for administrative and operational services based on 1990-1991 costs and delivery, as well as the reimbursement arrangements derived therefrom for activities carried out in support of UNDP-financed projects and programmes. These rates of

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reimbursement will also apply to the 1992-1993 biennium. For the cost per work month of technical support services, updated 1992-1993 figures (as reported by the consultants at an interagency meeting in February 1992) are presented as they do not depend directly on project delivery, but are based on the programme and budgets as approved.

I. ADMINISTRATIVE AND OPERATIONAL SERVICES

Methodology

4. After studying the methodology applied by the UNIDO Secretariat in the review of the cost identification system in UNIDO and the cost of regular budget support to technical cooperation and related activities (document PBC.6/12), the consulting firm adopted essentially the same approach for all agencies, but at a higher level of disaggregation of organizational units and cost components. The following steps were carried out:

(a) Eight separate clusters of administrative and operational services were established relating to the delivery of:

(i) International project personnel;
(ii) National project personnel;
(iii) Subcontracts;
(iv) Fellowships;
(v) Other training (study tours and in-service training);
(vi) Local purchase orders;
(vii) Headquarters purchases (small);
(viii) Headquarters purchases (large, i.e. over $70,000).

(b) For each major organizational unit in the respective secretariats the total cost was determined, including direct costs (such as travel) and common costs (such as space and currency fluctuation costs);

(c) Agency-wide central services costs (such as buildings management, electronic data-processing (EDP) and personnel) were distributed over other units on the basis of specific statistics such as space occupied, EDP time used and staff resources employed;

(d) For all organizational units contributing to each cluster of AOS services, a survey was carried out to establish the percentage of time spent by each unit on providing those services. By multiplying the resulting percentage by the total costs for each unit ((b) and (c) above) and adding the results across the agency as a whole for each cluster of AOS services, the consultants established the dollar cost of providing those services;

(e) For each agency, the delivery of technical cooperation was broken down by category of project input, corresponding to the AOS clusters cited in (a) above;

(f) The cost in percentage terms for each cluster was then determined ((d) above as a percentage of (e)).

Results

5. The results for the five agencies are shown in table 1 below. The differences between the five executing agencies in the above rates are due to a number of major determining factors:

Table 1

Costs as a percentage of delivery by cluster of services

	FAO	ILO	UNESCO	UNIDO	UNDTCD	Component weighted average
Project personnel						
International	16.22	20.10	22.15	15.91	13.04	16.62
National	21.87	22.53	31.36	19.20	9.02	20.57
Subtotal	17.08	20.44	24.77	16.26	12.41	17.22
Subcontracting	15.81	37.80	32.73	16.42	18.36	20.68
Training and fellowships						
Fellowships	15.55	43.53	45.58	21.76	20.93	22.07
Other training	62.12	46.68	31.85	26.51	25.13	38.33
Subtotal	28.87	45.58	34.12	24.49	23.02	30.36
Procurement of equipment and supplies						
Local purchase orders	8.11	15.37	88.41	9.58	9.69	11.40
Headquarters purchases (< $70,000)	21.20	20.01	28.18	12.60	15.01	17.83
Headquarters purchases (> $70,000)	18.10	5.64	18.71	3.88	6.11	7.61
Subtotal	12.08	16.06	36.73	9.39	12.11	13.59
Cost as a percentage of total delivery	17.17	24.07	30.38	15.17	14.36	18.43

(a) The findings of the cost measurement study suggest that cost rates are highly susceptible to changes in the volume of services performed. It would seem that each service calls for a certain minimal infrastructure if it is to be performed effectively, and that the cost of that infrastructure remains almost constant up to a certain level of delivery. 1/ In such instances (close to one half of the service categories), an increase in the volume of services delivered would reduce the cost rates considerably. In all other instances, the volume of services performed utilizes the capacity of the minimal infrastructure. Hence, an increase in services rendered would result in a less-than-proportionate increase in costs, thus yielding a more gradual decline in cost rates than in the first instance. In sum, it is probable that an increase in the volume of services delivered would result in lower cost rates.

(b) The rates are also highly susceptible to variations in the United States dollar exchange rate. For the four Europe-based agencies at least, the costs of services expressed in dollars decrease with the appreciation of the dollar against the local currency, with the opposite effect occurring when the dollar depreciates. Within these circumstances, though, project delivery is measured in dollars. Therefore, the ratio between cost and delivery varies inversely with the dollar exchange rate. (This does not apply to UNDTCD, which is based in New York.)

II. TECHNICAL SUPPORT SERVICES

Methodology

6. The methodology applied was as follows:

(a) In the time-measurement survey (see para. 4 (d) above) carried out for the AOS study, relevant staff in the agencies were requested to indicate the percentage of time spent on: (i) providing technical support to projects and (ii) on programme-level work;

(b) The total number of Professional staff-months available for the units involved in TSS-1 and TSS-2 services was determined on the basis of the programme and budgets;

(c) The total number of work months devoted to programme- and project-level technical support was determined by multiplying the percentage obtained under (a) by the total number of work-months obtained under (b);

(d) Similar to the methodology described in paragraph 4 (b) to (d) above, the average cost per work-month was computed by dividing the total estimated cost of programme-level activities and project-level technical support by the number of work-months obtained under (c).

7. In addition to the measurements above, the average direct salary costs (including common staff costs) were computed for the Professional staff involved in providing programme- and project-level technical support.

1/ In some extreme cases, the volume of services delivered is so low as to result in inordinately high cost rates (cf. the UNESCO rate for local purchase orders = 88.41 per cent).

Results

8. The following results were obtained for total 1992-1993 costs per work-month:

Table 2

Total cost per Professional work-month of services delivered (including General Service support and all other costs)

(In US dollars)

	TSS-1	TSS-2	TSS-1 & TSS-2 combined
FAO	25,953	20,404	23,835
ILO	31,418	24,652	26,868
UNDTCD	18,852	18,622	18,693
UNESCO	20,842	18,270	19,937
UNIDO	18,432	17,901	18,054
Weighted average	24,106	20,154	22,175

Table 3

Direct salary costs for Professionals involved in programme- and project-level technical services:

(In US dollars)

FAO	9,474
ILO	10,293
UNDTCD	9,338
UNESCO	9,779
UNIDO	8,138
Weighted average	9,514

III. CONCLUSIONS

9. When comparing organizations, UNDTCD should be treated with caution since it is the only organization located in a dollar-based economy. Furthermore, it does not have to maintain an independent headquarters operation since it is part of the United Nations. Although the consultants have attempted to measure equivalent costs, there are reasons to believe that certain cost advantages accrue from being part of a much bigger organization.

10. Of the four Europe-based organizations, it is evident from the study that UNIDO provides technical services at the lowest cost. Only a small part of the difference in those costs among the respective agencies is due to variations in cost levels. Most of the difference is due to:

(a) Lower average level and grade of Professional staff involved in providing technical services;

(b) A lower ratio of General Service staff to Professional staff.

11. The first point is vividly illustrated by comparing direct salary costs per Professional work-month: UNIDO costs are almost 15 per cent lower than those of UNDTCD (next lowest).

12. The results show a similar pattern for AOS services. In the overall average, UNIDO has the

lowest cost rate of the Europe-based agencies; of the five agencies surveyed, only UNDTCD has lower rates, for the reasons mentioned in paragraph 10 above. The rates of UNIDO are much lower than those of ILO, the organization that is closest to UNIDO in terms of delivery.

13. In addition to the two factors cited in paragraph 11 above, a different organizational and procedural approach is likely to be the major reason for the differences.

14. The cost measurement study demonstrates that, compared to similar organizations, UNIDO is a very lean organization whose costs for similar work are significantly lower. This has been achieved despite the fact that UNIDO works in a sector where the cost of specialized personnel tends to be higher than in such sectors as education, agriculture or labour. This underscores the fact that the scope for further savings or redeployment is extremely limited or even non-existent.

IV. ACTION REQUIRED OF THE COMMITTEE

15. The Committee may wish to take note of the findings described in the present report.